

IM 171

CENTRAL INTELLIGENCE AGENCY

2 May 1949

INTELLIGENCE MEMORANDUM NO. 171

SUBJECT: Comments on McGraw Hill Ad in Washington Post, 2 May 1949

It is agreed that "What Russia did with her national income" is of primary importance.

In terms of total capacity, total production and productivity, the US far surpasses the USSR. However, the Soviet leaders through the State Planning Commission have established the development of military potential as the primary task of the economy. The formidable strength of the USSR today rests not so much on its productivity as on the goals toward which the factors of production are directed. Direct military production; preparation of other segments of the economy for immediate conversion to wartime production; development of relatively self-sufficient and strategically located industrial areas, and stockpiling represent a considerably higher percentage of the over-all economic effort than they do in the United States. In addition, capital goods production receives relatively much greater emphasis as opposed to consumers' goods than it does in the US.

Direct government control over all phases of the economy (the utilization of raw materials, machinery, and equipment, transportation and finished products as well as indisputable control over the tremendous

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manpower of the USSR), provides a large measure of flexibility in the effective accomplishment of a limited number of high priority plans.

It is this special emphasis on military preparedness at the immediate expense of the civilian consumer that is the basis of Soviet strength as it is derived from the economy. Control of the Satellite economies is also being employed with this objective in view.

CIA estimate of utilization of USSR national income in 1948 is as follows:

Civilian use	40%
New capital equipment and public works	30%
Foreign aid	1%
Defense*	23%
Building of inventories and war stockpiling*	6%
	<hr/> 100%

Evaluation of Figures in the Above Table.

According to CIA estimate of the Soviet national income, not more than 40% went into civilian use in 1948. This is indicated by the extremely heavy tax load, through direct and indirect levies, and continued low standard of living.

Analysis of 1948 Soviet expenditures on capital construction and public works discloses that about 30% of the total national income was

* See II-143

utilized for this purpose rather than 21% published by McGraw Hill.

The Soviet "aid" to Communist forces outside of the orbit consumed about 1% of the Soviet national income of 1948.

The published and hidden Soviet military expenditures absorbed 24% of the national income in 1948 as analyzed in IM-58 and IM-143 (of which 1% is included in war stockpiling category).

CIA concurs with the estimated 6% allocation for building of inventories and war stockpiling.

The statement that the Soviets spend 12 to 14 billion dollars for new industrial plants and equipment is estimated to be substantially correct.

The figure of 2 billion dollars for replacing old equipment is also a reasonable estimate. However, the conclusion that the US and USSR spend approximately the same amount to expand their respective industries is misleading. First, Soviet expansion is relatively greater than that of the US in the production of machinery and equipment for further industrial use. The US assigns relatively greater emphasis to expansion of plant and equipment to increase the output of consumers' goods. Second, the quality of Soviet plant and equipment is not as high as that in the US; and capital equipment considered obsolete in the US is still being employed in the USSR. This means that the Soviet Union has given relatively greater emphasis to the development of heavy industry at the expense of consumers' goods; but Soviet na-

achinery and equipment does not have as high a productive efficiency.

The gains in Soviet industrial strength have been fairly steady; whereas advances in the US have fluctuated violently from the period of relative stagnation in the depression of the 1930's to the tremendous production increases from 1940 to 1945. Increases in the USSR outstripped those in the US during the depression, but lagged behind our wartime gains. For a summary of relative production, refer to IM-132 of 8 March 1949.

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